842

*Secretary Shultz*

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# Reform in the Philippines and American Interests: The U.S. Role in Consolidating Democracy

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*Following is an address by Secretary Shultz before the Foreign Policy Association, New York City, June 4, 1986.*

I want to talk to you today about the Philippines and to urge support for the new and comprehensive reforms being undertaken by the Aquino government.

I visited Manila 4 weeks ago, following the Tokyo economic summit. I had extensive discussions with President Aquino and other Philippine leaders and came away deeply impressed by what I heard and saw. President Corazon Aquino is an individual of courage, intelligence, dedication, and good sense. These qualities were the trademark of her presidential campaign; and they are evident in her current efforts to bring democracy and economic reform to a country that is a key ally of the United States.

Let me begin with a recent presidential statement on the question of government's proper role in the economy.

> We have set specific objectives. The first, which is a promise I made repeatedly during my campaign, is to have less government in the economy.... I believe that the restoration of a genuine private enterprise economy will foster competition, productivity, and efficiency.... Corollary to the attainment of this objective is the fulfillment of another promise I made during my campaign ... to trim the government to an efficient and responsive size.

Those are free market sentiments which I heartily endorse. But the quotation was not, as you might have imagined, from a speech by President Reagan. Rather, it was President Aquino, speaking before the Asian Development Bank on April 30.

The new Philippine Finance Minister, Jaime Ongpin, recently described before the same group his policy priorities. Once again, I'll just read what he said.

> The principal thrust of our recovery efforts will be to motivate the private sector to resume its traditional role as the prime mover of the economy.... Once we can restore a uniform set of rules and [an] even playing field for all those who wish to compete in the business arena, that spirit of enterprise will not only reawaken but should return with a vengeance.

As a Chicago economist, I could not have said it better.

These words—which the new Philippine Government is working energetically to translate into substantive deeds—serve as an appropriate prelude to my basic message to you today: now is the critical time for the United States to support the efforts of the Filipino people to achieve not only a revitalization of their democracy but a rejuvenation of their economy as well. President Reagan and I are enthusiastic about the initiatives of the Philippine Government, and we are determined to help it be successful

In pursuing its ambitious objectives, the Philippines must surmount formidable obstacles, but they have already made an impressive start. We intend to support the Philippines—in part, by encouraging the American business and financial communities to play an active role in this endeavor. In doing so, you will serve your own interests, those of the Filipino people, and the national interest of the United States as well.

## The Importance of U.S.-Philippine Relations

The history of the Filipino people has been intimately intertwined with our own for nearly a century. The Philippines was our only colony, yet we sought to promote self-government and ceded independence freely. We fought together as allies in World War II—and, ever since, have maintained alliance relations. Broad ties of family and friendship link individuals and institutions in each country. In short, the Philippines is a nation in whose future Americans have a substantial stake.

What happens in the Philippines makes a difference for Americans. Our mutual defense arrangements are of critical strategic importance, not only for U.S. and Philippine security but for peace and stability in the Asia-Pacific region as a whole. We are the leading trade partner and investor in the Philippines, a country blessed by a rich growth potential within a Pacific region already distinguished by dynamic economic advances. The Republic of the Philippines is a key member of ASEAN [Association of South East Asian Nations], a regional association of nations of growing consequence for the United States.

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But, above all else, our two peoples have come to share fundamental values, including a strong commitment to democratic self-government. Americans can never be indifferent to the fate of a people whose values and aspirations so closely mirror our own.

This is why Americans were so inspired by the dramatic events in Manila last February. We witnessed a determined people bravely taking their destiny into their own hands. We saw them resolve a grave political crisis swiftly, peacefully, and democratically.

By returning democracy to their own country, the Filipino people also reclaimed their self-respect. In a world scarred by political repression and violence, Filipinos set an extraordinary example through their steadfast devotion to freedom, their commitment to self-reliance, and their desire for national reconciliation. As President Reagan noted at the time:

> We've just seen a stirring demonstration of what men and women committed to democratic ideas can achieve. The remarkable people of those 7,000 islands joined together with faith in the same principles on which America was founded: that men and women have the right to freely choose their own destiny. Despite a flawed election, the Filipino people were understood. They carried their message peacefully, and they were heard across their country and across the world.

Those were President Reagan's comments.

### Next Steps in the Philippines

Despite the peaceful transfer of power, the current government has inherited a legacy of daunting problems:

- A communist insurgency of serious dimensions;
- An economy distorted by inequities, declining growth rates, and irrational government interference; and
- A political system that was undermined by centralized control and corrupt practices.

The advent of President Aquino's government could not, in and of itself, eliminate or quickly resolve these problems. But her government commands the domestic mandate and the international support that can enable her to find solutions. Today in Manila, the popular enthusiasm apparent last February is still evident, and there is wide recognition that the time for hard and sustained work has also begun.

I was struck during my recent visit to Manila by the determination and competence evident among members of the new administration. They comprehend the seriousness of the problems they have inherited. They have displayed a readiness to get down to work. They recognize that, while the United States and others can do much to help, the issues they face are fundamentally Philippine problems requiring Philippine solutions.

**Politically,** President Aquino's administration confronts the problem of revitalizing institutions and restoring public confidence in government.

They inherited a legislature, a court system, a civil service, and an electoral system bound more to the political leadership than to the people. The government is implementing, step by step, a program to rebuild these institutions. They are struggling to organize and staff a new administration which came to power suddenly, without benefit of the leisurely transition we are accustomed to in the United States.

Just think about it. There is a lot of emphasis today on 100 days—I think you featured that last night on your program, Dan [Rather]—and everybody, of course, harkens back to F.D.R.'s first 100 days. That's the record. He was elected on November 4th, he took office on March 20th. For over 100 days, he thought about it. He organized his Administration; he got himself together. She took off just like that. The 100 days she has had so far wouldn't even have F.D.R. in office yet. So it was a tough problem with all of these difficulties I have been outlining.

**Militarily,** the new government inherited a serious and growing communist insurgency. This cruel conflict gained substantial momentum in recent years. It was fueled by declining respect for government, ineffectual local administration, pervasive corruption, unprofessional military leadership, and a depressed rural economy. I might say we've contributed to that depressed rural economy by our sugar program, which suddenly has denied U.S. markets to sugar that formally came here over a long period.

The leaders of this insurgency are not rural reformers or developmental democrats; they are dedicated communists with a track record of appalling brutality. They are resolved to change the basic character of Philippine society through armed struggle.

Even since Mr. Marcos' departure, the communist New People's Army has continued its violent attacks in the countryside and its efforts in the cities to gain political control through front groups. This should make clear to any doubters that the communists will press their campaign for total power through violence no matter what progress is made in political and economic reforms.

**Economically,** the new government assumed power facing a huge budget deficit, a network of inefficient private monopolies and public corporations, a private sector demoralized by political uncertainties and arbitrary government decisions, and an agricultural sector in deep recession. The growth rate was negative. The Philippines' per capita income declined in real terms at a time when that of other ASEAN countries was rising. There was low productivity, domestic capital flight, and little new investment. Interest alone on the Philippine foreign debt of $26 billion amounted to over 50% of annual export earnings. And all this despite the Philippine's historic economic record of high growth potential.

The eventual success of President Aquino's government will depend on its ability to address these issues. And the success or failure of the Filipinos in surmounting these problems will, in turn, have a profound effect on their neighbors and, ultimately, on the United States.

### The Aquino Government: On the Right Track

I have recounted a formidable agenda of challenges for the new government in Manila. Yet it must be emphasized that the problems of the Philippines, however daunting, are soluble. They can be managed if three conditions are met:

- If the Aquino government adopts sound policies;
- If the United States and other nations and multilateral institutions supply strong and sustained support; and
- If the Philippine and international business communities respond positively.

The key factor, of course, will be the actions of President Aquino and her advisers. It's still early in her tenure, but already she has dispelled many initial uncertainties. Her government is off and running hard, and it is headed in the right direction. Considering the situation inherited last February, they have done remarkably well. There are many reasons to be bullish.

First, President Aquino has moved with alacrity to rebuild the democratic institutions of government. Her administration has taken important steps to crack down on corruption and protect individual rights.

President Aquino enjoys enormous popular support. Filipinos perceive her government as honest, frugal, and hard working. Since February, the Philippine Government has begun to restore popular confidence in the central government.

- It has set in place a provisional constitution protecting basic rights.
- It has reestablished an independent Supreme Court now composed of men and women of recognized integrity. All presidential legislation will be subject to judicial review.
- It has restored the right of habeas corpus.
- It has removed constraints on the media and encouraged what has now become one of the liveliest free presses in Southeast Asia.
- It has appointed a Constitutional Drafting Commission with broad political representation that is already hard at work.
- It has announced a plan and—most importantly—a timetable to return the country to fully constitutional government, with local and legislative elections projected for late in the year or early in 1987.

Second, the new Philippine Government has begun to build an effective capability for dealing with the insurgency. The departure of former President Marcos has deprived the insurgency of its principal propaganda target. Just as important, however, military reform promises to deal a significant blow to the effectiveness of the insurgents. The Philippine military—now called the New Armed Forces of the Philippines—is in the process of revitalization. I met with a group of the top officers for a couple of hours when I was in Manila; they're very impressive. They are returning to their traditional role as an apolitical professional force.

There is much to be done to enhance the security situation, but improvements are already apparent. New commanders with strong professional credentials are in place. The troops are being retrained and moved from the Manila area back to the countryside where they belong. There is renewed popular support for the military, who are seen as heroes because of their support for the choice of the people during the critical days of late February. General Ramos, Chief of Staff of the Armed Forces and a highly respected military professional—got his military education at West Point, incidentally—has established a distinguished panel to look into military wrongdoing. And conflicts between the military and the civilian population have apparently begun to subside.

The Aquino government is considering a cease-fire and amnesty plan to draw support away from the hard-core insurgents. This program is now being tested. At the same time, President Aquino has also made clear her readiness to use military force should the insurgency persist after the amnesty window has closed. Last month, when she visited the countryside in Mindanao, she stressed—and, again, these are her words:

> Should the cease-fire be grossly violated by the insurgents, the government will embark on the contrary course of war from which there will be no return but victory.

The new government's economic policy is headed in the right direction. Despite its current problems, the Philippines has extraordinary economic potential and is abundantly endowed with natural and human resources. The basis for growth is there.

It has a strong business community, ready to adapt to proper incentives. The work force is well educated. The economic infrastructure is in place. The savings rate is high. Annual inflation is less than 5%. Interest rates have fallen by some 4%—400 basis points in the lingo of New York—over the past 2 months. The peso is stable, with international reserves up from $1 billion to $1.6 billion since President Aquino took office. Internationally, the combination of lower oil prices and lower interest rates promise to benefit the Philippine economy significantly over coming months. Some estimates suggest that the net gain for the Philippines of these declines could be on the order of magnitude of some $800 million this year. That ain't hay.

I had the benefit of meeting with some of President Aquino's new financial team in Manila last month, including Finance Minister Jaime Ongpin; Jose Fernandez, the Governor of the Central Bank; and Jose Concepcion, the Minister of Trade and Industry. They are all successful businessmen and pragmatic believers in free enterprise and market forces. They believe a sense of balance is needed between short-term economic stimulus to overcome 3 years of steady contraction and the equally pressing requirement to unravel the mix of government and crony interventions, which had come to throttle the growth process.

Their timetable for economic recovery was laid out in the last week of May at a meeting in Tokyo of the Philippine Consultative Group, chaired by the World Bank. Finance Minister Ongpin took the initiative to explain President Aquino's growth-oriented economic strategy. In July, the Philippine Government will present the details of IMF [International Monetary Fund]-related measures. By October, they will have specific proposals ready for comprehensive reforms in the context of a medium-term growth strategy. Minister Ongpin accorded top priority to:

- Tax reform, including efforts to improve collections;
- Business deregulation;
- Trade liberalization;
- Reducing and streamlining the activities of government financial institutions;
- Selling off a major portion of public sector corporate assets; and
- Dismantling the notorious crony monopolies in sugar, coconut, and other basic commodities.

The multilateral assistance approach which the Aquino government is now seeking is very much in keeping with the proposals made by Treasury Secretary Baker on the Third World debt crisis at the World Bank/IMF meetings in Seoul last September. When we put forward that American initiative, I did not regard the Philippines as a leading candidate for such a program. The previous regime seemed unwilling or unable to implement serious economic reform.

Today, we see a government in Manila that is committed to a market-oriented reform program—and one that possesses the political support necessary to implement it. We anticipate that the groundwork will be laid by the end of this year for a new growth-oriented financial program for the Philippines. This should encompass new resources from the World Bank, the Asian Development Bank, and bilateral donors, as well as more forthcoming approaches to financing the very large foreign debt inherited by the new government.

At times, we hear differing views among some members of the Philippine Government about economic issues. We usually do hear debate, and occasionally dissonance, in democratic governments; the sound you hear is the sound of democracy at work. Ever been to a Republican convention? The evolution of these policies under debate—particularly those involving labor—will continue to be of special concern to us, as well as to other potential foreign investors. But what has impressed me thus far has been the degree to which President Aquino has spoken out in support of policies of free enterprise. She has made clear that future articulation of labor policy will be done through the office of the President. Putting an end to specu-

lation about selective debt repudiation, she stated—again, I'll read what she said referring to debt repudiation: "If we did that, nobody would be willing to help us anymore.... We have a word of honor, and we still have to borrow." It sums it all up in a very simple, direct statement. This statement and the government's actions are promising signs for the future.

### The Role of U.S. Policy

American support is going to play a crucial role in helping the Filipino people overcome their current problems. We have an important stake in seeing that President Aquino's government succeeds. Our commitment to democracy, our friendship for the Filipino people, and our strategic interests warrant a special effort at this time.

To that end, we have set for ourselves several immediate policy goals:

- To forge stronger links with the new generation of Philippine leaders;
- To maintain a continuing and close defense relationship with the Philippines;
- To support Philippine initiatives designed to enhance the effectiveness and professionalism of the Philippine Armed Forces; and
- To assist Philippine public and private sector efforts to restore economic prosperity to the country.

I will be holding further discussions on these objectives with President Aquino and other Philippine leaders when I return to Manila later this month to meet with my ASEAN colleagues.

As part of our efforts to broaden and reinforce our dialogue with the Philippines, we intend to initiate a much more active program of governmental and privately sponsored exchanges. In particular, we will be working to create new linkages between U.S. and Philippine universities through expanded student and faculty exchanges.

On the defense side, our base agreements remain firm—contrary to some earlier speculation and predictions and press speculation. The importance of the U.S. facilities at Subic Bay and Clark Field for the security interests of both countries is clearly recognized by the new government. President Aquino has pledged to respect the existing military bases agreement and to keep open her options for the future.

On the questions of military and economic assistance, we have sought to respond promptly to the critical short-term needs of the new Philippine Government. In late April, President Reagan sent to the Congress a proposal for a substantially increased economic and security assistance package for fiscal year 1986. This was specifically targeted to support President Aquino's programs for recovery and reform. This package, which includes a request for a $150 million supplemental appropriation in the current fiscal year, would accelerate fund disbursements and ease the terms of ongoing assistance programs. I think it says a lot about President Reagan's priorities—and in this very tough budget situation, where if you add something over here you've got to take it from over there—that he decided to make this request. And I believe the Congress will go along with us.

In total, we are seeking to make available about $500 million in economic assistance and over $100 million in military assistance. More than 90% of this would be on a grant basis so as not to aggravate the country's debt problem. And in doing so, we will seek to give direct and vigorous support to private sector development.

However substantial any American effort, both the Philippine Government and we are convinced that it will have to be supplemented by broader assistance within a multilateral framework. When I was in Manila last month, I made a personal commitment to President Aquino that the Government of the United States will play a leading role in putting together a major package of financial assistance from free world resources.

At the same time, we recognize that if the export potential to the United States is shut off for countries such as the Philippines by protectionist pressures here at home, the benefits of this financial assistance will be sharply reduced. Today, I want to assure you once again of the President's resolve to resist such protectionism and keep the United States open to increased trade.

All of this is a measure of the trust which President Reagan and I have in the new administration in Manila. It reflects our confidence that the government of President Aquino has the talent and determination to deal with the tough problems now facing the Philippines. In the economic field, it is based on our assessment that the prospects for self-sustaining, market-oriented growth over the medium term are promising.

Let there be no mistake about the strength of our commitment to support and assist the Philippines during this crucial period. The President and I are determined to help the new government make the most of this opportunity to overcome the nation's problems. As the President said last February: "Our hearts and hands are with President Aquino and her new government as they set out to meet the challenges ahead."

### The Response of the American Private Sector

This leads me to the third element necessary for a Philippine recovery—that of private sector initiative and the infusion of equity capital, both from within the Philippines and from overseas. The representatives of the American business and financial communities in our audience this afternoon have the potential to play an important role in this process.

Much of the initiative must come first from the Philippines' own private sector, including the large number of Filipinos with financial assets currently held abroad. I strongly agree with Finance Minister Ongpin—Philippine Finance Minister—and he said:

> As a Filipino, I must tell you that if we ourselves are unwilling to put our money where our mouths are, we have no right to ask foreign governments and foreign investors to risk their money in developing our own economy.

Laid it right on the line: for foreign companies considering investments in the Philippines, this issue—the confidence of Filipinos as shown by the return of their assets—is crucial. The Aquino government should develop plans and programs to lure such capital back home, and they are very well aware of it.

We are beginning to see the first signs that the confidence of domestic investors in the Philippines is firming up. Capital flight—which had become such a major problem during the last 2 years of President Marcos' administration—appears to have ended. There is a sense that the Philippine economy has bottomed out from the recession that began in 1983; and projections are for a resumption of positive growth in the second half of this year.

An important element in the Philippine recovery is dealing with the massive foreign debt. The U.S. Government is actively involved, through our Agency for International Development, in searching for creative solutions to this problem, including Philippine plans to support privatization of major companies and ways to convert some of the Philippine debt into equity—the so-called debt

equity slot, which is an idea that is beginning to catch on, be helpful in many places.

Thus far, the international business community—while welcoming the change of government in Manila—has adopted a cautious, wait-and-see attitude toward investment decisions. If stability and development in the Philippines are to be attained, however, the American private sector must get off the dime and look aggressively at investment opportunities. Real money and attractive rates of return are involved.

As a former businessman, I know the calculus of potential risk and benefit that businessmen apply in making investment decisions. In the case of the Philippines, we have a country that traditionally has been one of our closest friends. It is a country in which American investment has done exceptionally well in the past. For the first time in a number of years, there is an administration in the Philippines with both the sound policies and the popular mandate necessary to attack the country's most substantial problems. That administration enjoys our strong confidence and support. It has positively impressed the international donor community.

In light of the Philippines' abundant human and natural resources, there is no reason why the Filipinos cannot now enjoy the same economic success achieved by many of their Asian neighbors. I believe that the American investors who come in early and for the long haul will reap large benefits.

**Conclusion**

So now it should be very clear where I stand: I am bullish on the Philippines. That would have seemed an especially rash statement to make only a year ago. But the manner in which the Filipino people and their new leaders have overcome nearly impossible odds to restore democracy within their country gives me good cause for optimism.

Americans were exhilarated last February over what the Filipino people had accomplished politically. I believe we should be equally excited about what the Filipinos are now trying to achieve in terms of stability and development: to restore a greater sense of democratic legitimacy to the governmental process; to bring an end to insurgent violence in the countryside; and to improve economic conditions for all Filipinos through steady, market-oriented growth.

For reasons of history, of friendship, and of our own self-interest, this is a time for Americans to get off the fence. We must give the Filipino people and their new government the support they need and deserve. ■

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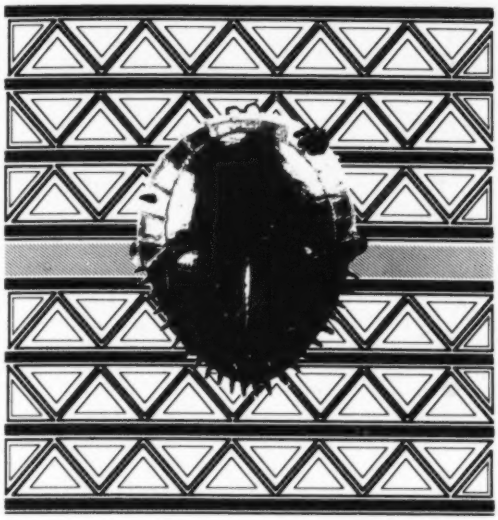

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